WALL STREET ACCOUNTABILITY

GLOSSARY OF TERMS

Capital Requirements – Generally speaking, the term 'capital requirement' refers to the amount of cash a bank is required to hold in relation to its debt or obligations. Capital requirements are imposed to allow banks to weather reasonable losses.

Clearing Agent – A clearing agent is a third party entity who would provide each party to a trade a guarantee that they would be paid if the other party defaulted or went out of business.

Clearing House – A clearing house is an entity within an exchange responsible for settling trading accounts, clearing trades, regulating delivery and reporting trading data.

Commercial Bank – A commercial bank is simply a bank that provides checking and savings accounts and accepts deposits from individuals and businesses.

Counter Party – Counter party refers to a party to a contract or swap.

Credit Default Swap – A credit default swap is in essence an insurance contract. The buyer of the swap makes periodic payments to the seller of the swap in return for protection against default, or another event affecting the value of a specified asset. The seller agrees to buy the specified asset from the buyer at face value in the event of default. The asset is typically some type of security, such as a mortgage backed security. A credit default swap is a derivative, so neither the buyer nor the seller typically owns the security. One party is in essence paying the other to assume the risk should the underlying security default. Parties enter in these agreements in order to manage risk.

Derivative – A derivative is a financial contract that derives its value from an underlying product or security, however the investor in the derivative does not actually own the underlying asset. The value of the derivative depends on what happens to some attribute of the asset, such as the the price of a commodity, interest rates, the price of a stock, or the risk that a borrower will default on a loan. Futures, options, and swaps are examples of derivatives. Derivatives fall into two categories, over the counter (privately entered into contracts) and exchange traded. Typically futures are exchange traded and swaps are sold over the counter.

Exchange – An exchange is a marketplace in which stocks, bonds, commodities, or other securities and derivatives are traded.

Federal Reserve Emergency Lending Authority (13 (3) Authority) – Currently, in rare and unusual circumstances (such as the 2008 financial crisis) the Federal Reserve can lend money to "any individual, partnership, or corporation," as long as certain requirements are met. Under this bill, no longer will any individual institution be allowed to be propped up by the Fed again, like AIG was.

Funeral Plans – A funeral plan is plan submitted by an otherwise healthy bank that details its shutdown process, should it go under.

Futures Contract – A futures contract is an agreement to buy or sell a commodity or financial instrument in a designated future month at a price agreed upon at inception by the buyer and seller. A futures contract is a derivative and is traded on an exchange.

Hedge Fund – Hedge funds are investment portfolio's much like mutual funds. However, most hedge funds require a significant initial investment (often times well over $1 million) and require investors to keep their money in the fund for long periods of time. Hedge funds are often very large and risky for investors.

Insider Trading – Insider trading refers to the use of non-public information in the purchase or sale of a security.

Investment Bank – An investment bank is a financial institution that provides a variety of services for individuals, businesses and investors. Investment banks aid in the sale of securities, help companies merge or reorganize and act as a broker for individual and institutional clients. Investment banks also trade on their own accounts. Unlike commercial banks investment banks do not accept deposits or provide loans to individuals.

Leverage Ratio – The term leverage ratio refers to how much money a bank has borrowed compared to its available capital.

LIBOR – LIBOR stands for the London InterBank Offered Rate. It is the interest rate that banks charge each other for loans. This rate is used as a benchmark for bank rates all over the world.

Margin – Many investors purchase securities with borrowed money from a broker. The margin typically refers to the difference between the market value of a stock and the loan a broker makes.

Mortgage Backed Securities – A mortgage backed security is a security backed by a pool of mortgages. Investors receive payments derived from interest and principal on those mortgages.

Over the Counter Trading – Over the counter trading generally refers to any trade done outside of an exchange. Over the counter trades are often done through broker dealers.

Securitization – Securitization is the process through which an issuer creates a financial instrument by combining other financial assets and then selling them to investors. Mortgage backed securities are an example of this. An insurer combines mortgages into one large pool, divides the pool into smaller pieces, and then sell those pieces to investors.

Swaps – A swap is a derivative in which two parties exchange 'streams of cash' (such as interest payments) with payments on set dates for a set period of time, in which at least one of the streams of cash is a fluctuating rate. For instance, Company X pays Company Y 5 percent on $1. Company Y pays Company X a fluctuating rate on the $1. Companies enter into agreements like this to manage risk.

'Too Big to Fail' – A firm is defined as 'Too Big to Fail' if its abrupt bankruptcy would cause a major disruption to the nation's financial system as a whole (consider the debate surrounding the rescue of Citibank).

'Volcker Rule' – The 'Volcker Rule' limits what commercial banks can do with their deposits by preventing them from owning a division that makes speculative bets. The rule also calls for limits on the size of financial firms.